



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

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Justin P. Wilson
Comptroller

Memorandum

To: Honorable Bill Haslam, Governor

Honorable Randy McNally, Chairman
Senate Finance, Ways, & Means Committee

Honorable Charles Sargent, Chairman
House Finance, Ways, & Means Committee

From: Justin P. Wilson, Comptroller of the Treasury

Tre Hargett, Secretary of State

David H. Lillard Jr., State Treasurer

Larry B. Martin, Commissioner, Finance and Administration

Date: December 8, 2015

Subject: State Funding Board Growth Projections for FY 2015-16 and FY 2016-17

The State Funding Board met on November 13, 2015, to hear presentations on the State's economic outlook for the remainder of fiscal year 2015-2016 and for fiscal year 2016-2017. The Board reconvened on November 23, 2015, to discuss revenue growth projections and to arrive at consensus estimates.

Total State Taxes and General Fund Revenue Growth Estimates

The Board is charged, in Tennessee Code Annotated Section 9-4-5202(e), with the responsibility of developing consensus estimates of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. This is a revenue estimation process, not a budgeting process. The Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue growth; however, the Board does strive to have the highest degree of confidence in the State's ability to achieve such growth. Fiscal considerations properly belong with those who set the State's budget – the Administration that recommends appropriation levels based upon its assessment of revenue growth and the General Assembly that adopts a *de facto* revenue estimate through its final action on the appropriations bill.

Pursuant to Tennessee Code Annotated Section 9-4-5202(b), the Tennessee Department of Revenue provides to the Board estimates of growth in franchise and excise tax revenue and includes in that estimation

whether the growth is recurring or non-recurring. Additionally, the Board shall, pursuant to Tennessee Code Annotated Section 9-4-5202(e), identify and report whether any growth in franchise and excise tax revenue is recurring or non-recurring. To fulfill these statutory obligations, the Department of Revenue reported non-recurring franchise and excise tax revenue growth of \$150,000,000. The consensus total tax and general fund tax revenue growth estimates displayed below are for recurring growth and do not account for the non-recurring growth of \$150,000,000.

The Board heard testimony regarding the economy from Mr. Lee Jones of the Federal Reserve Bank of Atlanta; Dr. William Fox of the University of Tennessee; Commissioner Richard Roberts of the Tennessee Department of Revenue; and Mr. Robert Currey of the legislative Fiscal Review Committee. The state tax revenue growth estimates provided by each of the presenters are summarized in two attachments to this memorandum.

Multiple presenters cautioned that while Tennessee's actual tax collections in the current fiscal year are outpacing budgeted revenue estimates, several concerns could impact our future growth. Such factors included Japan, one of our largest trade partners, recently falling into recession; the fact that our retail sales were only stable to flat; and the fact that lower gas prices, although adding to consumer income, may not continue.

The Board developed the following summarized consensus recurring revenue estimates expressed in ranges of growth rates in State taxes.

	FY 2015-2016		FY 2016-2017	
	Low	High	Low	High
Total State Taxes	2.80%	3.30%	2.50%	3.00%
General Fund	2.90%	3.40%	2.75%	3.25%

While it is difficult to precisely predict revenue ranges, the Board believes that these ranges are reasonable for use in state budgeting. These ranges are based on statutory tax provisions enacted through the 2015 session of the General Assembly. Again, these ranges are for recurring tax revenue growth.

Net Lottery Proceeds Revenue Growth Estimates and Long-Term Funding Needs Estimates

The State Funding Board also heard presentations regarding the Tennessee Education Lottery (TEL). Legislation in 2003 created the Tennessee Education Lottery Corporation (TELC) (Tennessee Code Annotated Sections 4-51-101 et seq.). Tennessee Code Annotated Section 4-51-111(c) requires the Board to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the four (4) succeeding fiscal years.

The Board heard testimony regarding the lottery from Mr. Robert Currey of the legislative Fiscal Review Committee, and Mr. Andy Davis, Chief Financial and Technology Officer of the Tennessee Education Lottery Corporation. The Net Lottery Proceeds growth estimates provided by each of the presenters are summarized in two attachments to this memorandum.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board, with the assistance of the Tennessee Student Assistance Corporation (TSAC), to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of Tennessee Student Assistance Corporation. The lottery-

funded scholarship programs as authorized through the 2015 session of the General Assembly include Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Hope Access Grant, Wilder-Naifeh Technical Skills Grant, Non-traditional Student Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, the STEP UP Scholarship and Tennessee Student Assistance Award.

The estimates provided by each of the presenters are summarized in an attachment to this memorandum. Consensus was reached on the following estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for the various statutory purposes.

Net Lottery Proceeds	FY2015-2016	FY2016-2017	FY2017-2018	FY2018-2019	FY2019-20
Low	\$341,970,000	\$348,100,000	\$352,600,000	\$357,200,000	\$361,800,000
High	\$347,024,000	\$357,600,000	\$365,800,000	\$373,100,000	\$380,600,000

The State Funding Board considered the joint projections for lottery scholarship and grant program funding needs provided by TSAC and accepted their recommended projections. These estimates and projections assume no new legislative changes regarding the TELC and its authority or the scholarship and grant programs.

Attached is a copy of the letter from the Department of Education requesting \$23,000 from Net Lottery Proceeds pursuant to Tennessee Code Annotated Section 4-51-11(c)(2)(B) which states:

Before December 15, 2003, and before December in each succeeding year, appropriate state agencies shall submit to the funding board and to the governor their recommendations for other educational programs and purposes consistent with article XI, Section 5 of the Tennessee Constitution based on the difference between the funding board's projections and recommendations for the lottery scholarship program based on the report submitted pursuant to subdivision (c)(2)(A). In no event shall such recommendations exceed the projections of the funding board for a specific fiscal year.

Please feel free to contact us if you have any questions.

Attachments

Revenue Estimates (2)
Lottery Estimates
TSAC/THEC Report
Letter from Department of Education

cc: The Honorable Ron Ramsey
The Honorable Beth Harwell